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CONTACT: Mary Bottari at (608) 260-9713 or mary@prwatch.org

WILL THERE BE A MIDNIGHT MASSACRE OF BLANCHE LINCOLN?
Senator Bayh Is "Confident" That The Banking Bill Will Have Its Teeth Knocked Out

Senator Evan Bayh (D-Ind.) acknowledged that the Goldman Gang in Washington is waiting for an opportunity to gut the most powerful provisions of the finance reform bill being debated on the Senate floor today. These provisions were authored by Senator Blanche Lincoln (D-Ark.) who faces a tough primary on Tuesday against progressive candidate Bill Halter.

Lincoln's language, Section 106 of the bill, would force the big banks to spin off their "swaps" or derivatives desks into separate entities that would be regulated under other provisions of the bill. The swaps desks would no longer have access to the Federal Reserve discount window, FDIC insurance or the taxpayer guarantee. In one fell swoop, Lincoln restores much of the Glass-Steagall firewall against Wall Street gambling, protects taxpayers from being forced to pay for banks bad bets and shrinks the size of the nation's five largest, most anticompetitive financial institutions.

But the big banks and even Senate Democrats, including Bayh, are gunning for the measure. Senate Democrats Kirsten Gillibrand of New York and Mark Warner of Virginia have discussed scaling back Lincoln's proposal, which is also opposed by Republicans.

"Senator Lincoln's got a primary next Tuesday, and so I think some of these things will have to wait until after that's resolved," Bayh told Bloomberg yesterday. He is "confident" an amendment will be offered to change the Lincoln language after Tuesday.

"Blanche Lincoln's language on derivatives is the single strongest structural reform in the entire bill. Most Americans don't mind gambling, but they do mind when the big banks gamble with taxpayer money. The American people will be watching to see which Senators will stand with the people and which will do the bidding of Goldman Sachs to strike this strong language from the bill," said Mary Bottari of the Center for Media and Democracy.

ROUBINI, STIGLITZ, REICH, GREENBERGER AND SMALL BANKS DEFEND LINCOLN LANGUAGE

Famed economist Nouriel Roubini who predicted the bubble crash thinks Lincoln is on the right path telling Alternet, "Yes, I think it's a good idea, and I would go beyond it." Nobel Prize Winning Economist Joseph Stiglitz tells CNN that if the language were axed: "It would show that the big banks have succeeded in their ambition of returning to the world nearly as it was before the crash."

Behind the scenes it is "The Biggest Battle in Banking" according to Robert Reich, former Labor Secretary. For Goldman and the other big five banks that control 90% of the derivatives trades, "annihilating Section 106 is probably priority No. 1, " says Salon.

But small banks "strongly support" the measure, see **The Independent Community Bankers of America**. "This provision is targeted at the AIGs of the world - both large and small - whose swaps activities played a key role in triggering the credit crisis and subsequent economic downturn and resulted in over $180 billion in taxpayer assistance," says ICBA.

The swaps desks would still be part of the bank holding company and would be regulated by other provisions in the bill. See former CFTC lawyer Michael Greenberger explain how the new swaps desks would be regulated by clicking **here**. Without Lincoln's provision, the bill lacks any structural change-a remarkable fact, especially after the biggest crash since the Great Depression.

WHERE IS THE WHITE HOUSE?

The Administration is busy trying to kill the language behind the scenes. Defenders of the status quo say that behemoth banks should be allowed to continue to sell derivatives. But small bankers and economists object. Jane D'Arista, former economist for the House Banking and Commerce committees explains: "If banks' role in selling derivatives is so important and if it is part of the usual course of a banking relationship, why is it that only five banks - J.P. Morgan Chase, Citibank, Bank of America, Goldman Sachs and Morgan Stanley - account for 90 percent of the market? The level of concentration among swaps dealers is systemically risky and anti-competitive."

RESOURCES, WRITINGS AND EMAILS

Americans for Financial Reform, made up of 250 groups, letter in support of Lincoln language.

The Independent Community Bankers of America.

Nouriel Roubini, Alternet Interview.

Nobel Prize Winning Economist, Joseph Stiglitz "Protect Taxpayers from Wall Street Risk".

Former Labor Secretary Robert Reich, "Biggest Battle in Banking".

Professor Jennifer Taub, former Fidelity Investments Counsel on Baseline Scenario, jtaub@som.umass.edu.

Professor Michael Greenberger, U of Maryland Law School, former Director of the Division of Trading and Markets at the Commodity Futures Trading Commission, mgreenberger@law.umaryland.edu.

Jane D'Arista, economist UMass Amherst, on why Bair and Volcker are wrong on Lincoln, jane.darista@snet.net.

L. Randall Wray, Professor of Economics, Missouri-Kansas City.

Center for Media and Democracy
520 University Avenue, Suite 260
Madison, Wisconsin 53703-4929
Phone: 608-260-9713 | Fax: 608-260-9714
E-mail: editor@prwatch.org